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Bloomberg BRIEF

Technical Strategies

02.06.14
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INSIDE TECHNICALS

BREAKOUT WATCH. Paul Ciana says the recent breakout for the iShares 20+ Year Treasury ETF may target $114. Page 2

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CALLS AND SIGNALS

- The **S&P 500** probably won't fall below 1,600 this year and may climb to as high as 2,000, according to **Leon Cooperman**, chairman of hedge fund Omega Advisors Inc. Cooperman dismissed a prediction made yesterday by **Tom DeMark**, chief executive officer of DeMark Analytics llC, on CNBC that U.S. stocks have reached an inflection point and the S&P 500 could plunge to about 1,100. "I don't see it in the slightest, and I'm not a raging bull," Cooperman said.

- **Bulls in the American Association of Individual Investors survey** fell to 27.9 percent from 32.2 percent, the fewest since April 18, 2013. Bears in the survey rose to 36.4 percent from 32.8 percent, a 5-month high.

- **Japan's yen** has climbed 6.7 percent versus its **Korean** counterpart this year, reaching a more than two-month high of 10.771 won on Feb. 4. The yen's 14-day RSI versus the won climbed to 73 on Feb. 3, above the 70 threshold that signals a reversal may be imminent. Japan's currency has also remained above or just below the upper limit of its Bollinger band against the won since Jan. 23, data compiled by Bloomberg show.

S&P 1,500 Sector Divergence Suggests Investors Seeking Protection

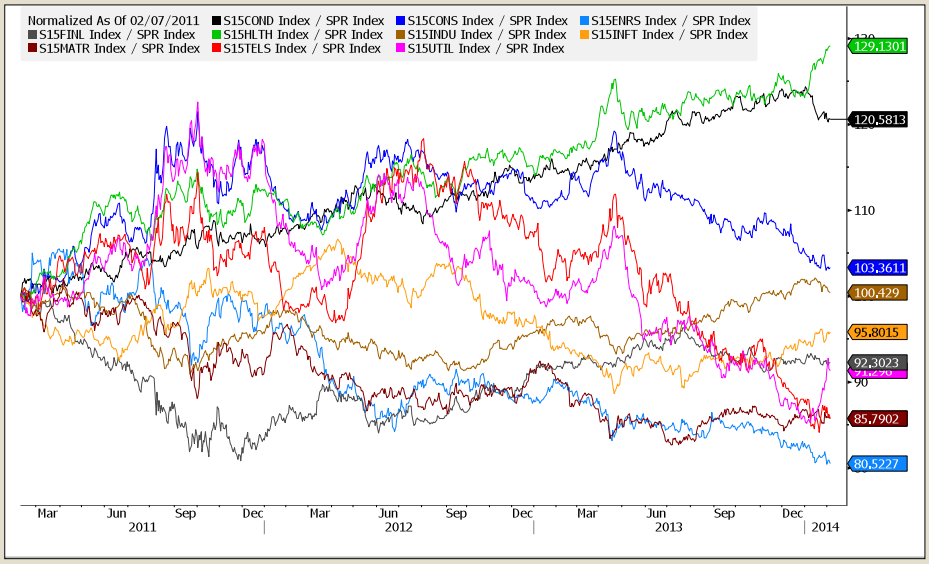
ANALYSIS BY PAUL CIANA, CMT

Analysis of each of the 10 S&P sectors relative to the S&P 1,500 Composite index shows that the market leader on almost all time frames, from three years down to the last three months, has been the health-care sector, shown in green on the chart at right. The discretionary sector, shown in black, accompanied the health care sector for much of that time.

The largest divergence between these two top-performing sectors occurred in June 2012 when investors sought safety in health-care companies during the U.S. Federal Reserve's Operation Twist. Discretionary stocks underperformed during the summer months as the central bank's policy began. Today these sectors are again diverging as Fed policy changes.

The S&P 1500 Composite index is a broad-based capitalization-weighted index of 1,500 U.S. companies. It contains all the members of the S&P 400, 500 and 600 indexes, and thus represents a wide measure of the performance of the U.S. stock market.

For short term asset allocation purposes, a mean reversion trade may be nearing where discretionary stocks bounce and health-care stocks consolidate. If the divergence continues, it suggests equity investor sentiment has shifted to seeking protection within the context of a deeper market correction.



THIS CHART IS AVAILABLE ON BLOOMBERG AT {G BBTA 504<GO>}.

(Paul Ciana, CMT, is an equity and technical analysis specialist at Bloomberg LP in New York. He can be contacted at PCiana@Bloomberg.net)

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BREAKOUT WATCH

ANALYSIS BY PAUL CIANA, CMT

iShares 20+ Year Treasury Bond ETF Breaks Out

THIS CHART IS AVAILABLE ON BLOOMBERG AT {G BBTA 503<GO>}.

The iShares 20+ Year Treasury ETF had been range bound for the second half of 2013, oscillating between $100-107.50 and forming a base. During the last week, the ETF has successfully broken above its 200 day moving average, clearing resistance at $107.50 and closing as high as $109.32. Look for TLT to find support at prior resistance levels before a potential rally to $114.50.

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INDICATORS APPLIED

ANALYSIS BY OLIVER WOOLF, CAIA, MSTA,

Analyzing FTSE-100 Trends Using Heikin-Ashi Candlesticks

Heikin-Ashi is an adapted version of Japanese candlesticks which filters out noise in a trend. For any candle the open, high, low and close values are smoothed by incorporating data from the previous candle, thus maximizing the probability that the given candle adheres to the prevailing trend.

The first chart at right exhibits six months of daily FTSE-100 data with traditional candles, each candle employing its own day's open, high, low and close values.

As denoted by the numbered black circles within the trends marked by the dotted black lines, regardless of how bullish or bearish a trend, there are anomaly candles when the sentiment on a particular day is contrary to that of the trend; a down close in a upward trend or vice versa.

Heikin-Ashi filters out those anomalies by using the following calculations:

HA Close =(Open(0)+High(0)+Low(0)+Close0)/ 4

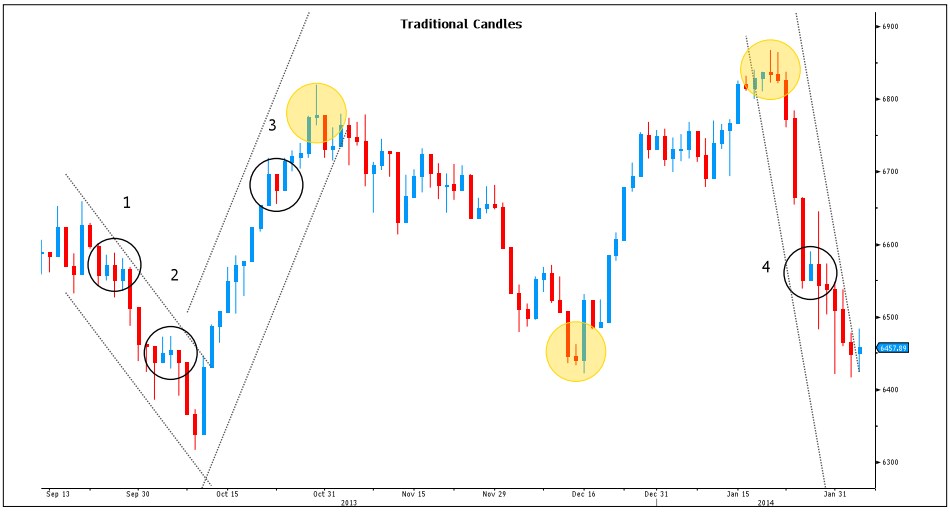
HA Open=(HA Open(-1)+HA Close(-1))/2

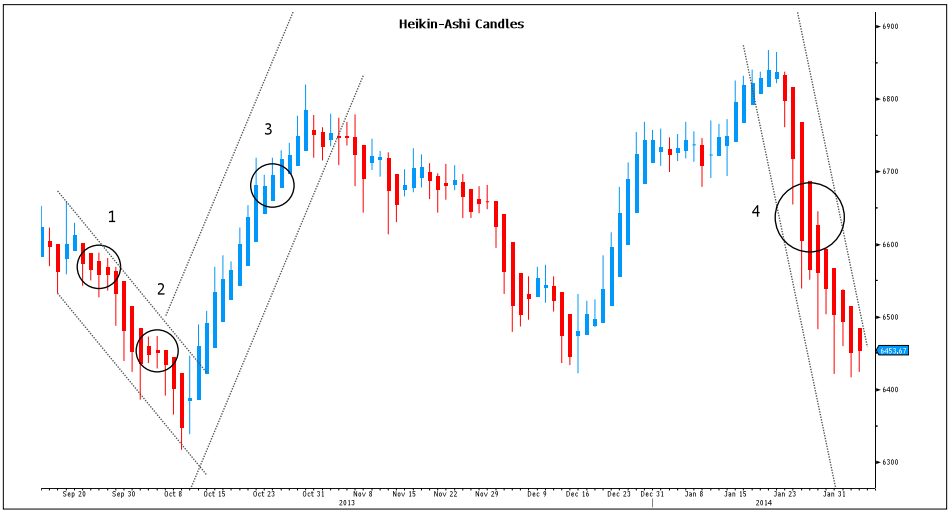
HA High=Max(High(0),HA Open(0),HA Low(0))

HA Low=Min(Low(0),HA Open(0),HA Low(0))

The result of this modification is that in an upward trend the close and open are positively biased and the open and low negatively biased. The contrary is true in a downward trend to the effect that minor fluctuations within the trend are smoothed.

The second chart depicts the remodeled Heikin-Ashi candles. By retaining the black circles on the chart it is apparent where the analysis would have benefitted from the transformation; at circles 1, 2 and 4 the candles that were previously a bullish blue have now conformed to the bearish red of the trend. Likewise, the red candle at circle 3 is now blue. The contrast is particularly stark at circle 4 for Jan. 28, where Heikin-Ashi has converted from a mildly bullish to extremely bearish candle in sync with the dominant trend. Consequently, the Heikin-Ashi formula enables one to better follow a trend without being thrown off track by an errant candle.





THESE CHARTS ARE AVAILABLE ON BLOOMBERG AT {G BBTA 496 AND 496<GO>}.

Another product of the Heikin-Ashi alteration is that, as long as the trend is strong, the bodies of the candles tend to remain large. Hence, the emergence of smaller candles, such as during the turn of the year on the chart above, can represent a loss of momentum.

One caveat to bear in mind is that among traditional candlesticks there exist many patterns, the majority of which can suggest reversals. The golden shaded circles in the first chart highlight three of these patterns; a morning star, an evening star and, most recently, a series of small-bodied candles that suggested nervousness prior to the FTSE-100 correction.

While these patterns can occur using Heikin-Ashi candles, the repercussion of the smoothing is that the formation of the patterns will probably be delayed. Therefore, a blend of the two techniques may be useful; Heikin-Ashi to retain focus on the trend, but traditional candles for when sudden changes in sentiment occur.

(Oliver Woolf, CAIA, MSTA, is a technical analysis specialist at Bloomberg LP in London. He can be contacted at OWoolf@Bloomberg.net)

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KASE BAR ANALYSIS

GUEST COMMENTARY BY CYNTHIA A. KASE, CMT, MFTA

Managing Risk With KaseX Stops Incorporating Both Range and Variation

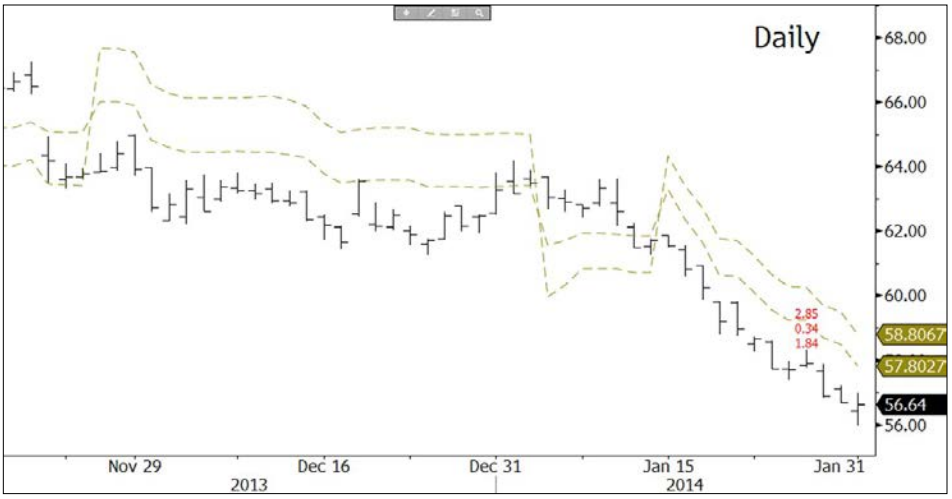
Exit stops don't get much attention, yet they are critical to success. Many set stops in accordance with personal risk tolerance, consistent with budgets. Certainly it's better to set stops you are comfortable with versus uncomfortable, and within your budget. But the challenge is that the market generates risks driven by its own internal factors.

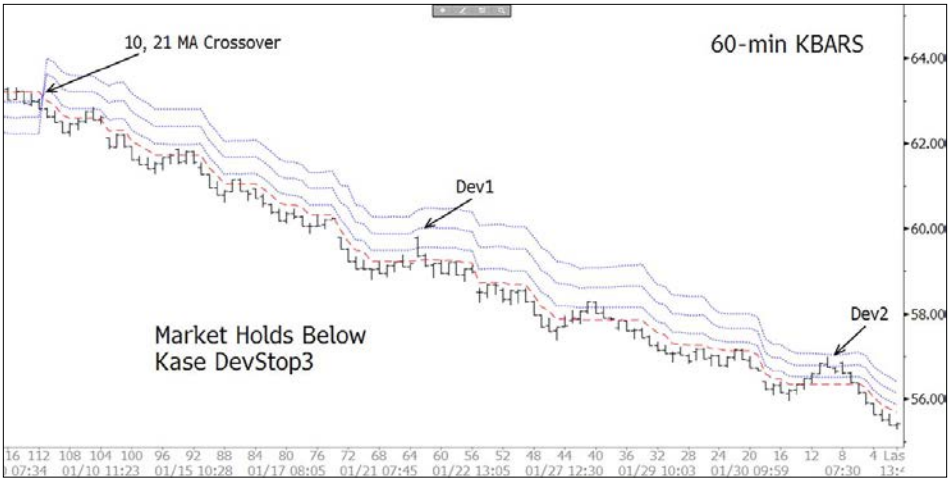
Previously, in the Jan. 23 Technical Strategies Brief, I wrote TrueRange is important for understanding risk, and so directly corresponds to stop placement. For the KaseX Stops and Kase StatWare DevStops, I use a double TrueRange (TRD = @max (H, H[1], C[2]) - @min(L, L[1], C[2]). My stops are set at a multiple of TRD standard deviation above the average, generating stops that consider both range and variation in range, thus allowing for bars that are much larger than typical.

Here's why. Take an example of a doorway large enough for 97.5 percent of a given population to enter without ducking. So, the door height must be set at two standard deviations over the average height. Two populations both have an average height of 67 inches. The first population consists of Rockettes, with a 0.50 inch standard deviation. NBA players and their families comprise the second with a standard deviation of eight inches. The first population's door must be 68 inches high, and the second's 83 inches.

Let's see how this approach applies to Target Corp. The TGT daily chart as of Jan. 31 plots the KaseX trailing stops. The stops are set to only show those associated with the dominant trend but can be changed to display both sides. The lines reflect 1.2 and 3.8 standard deviations of TRD above the average, and the top and bottom numbers are the reversal values associated with those stops. So if you were using the second stop at $2.85 per share risk, and trading 1000 shares, the trade would carry about $2,850 risk plus slippage. You might round up your risk estimate to $3,000. Conversely, if you were willing to carry about $3,000 risk per trade, you would divide $3,000 by $2.85, calculate you could trade 1052 shares, and to be safe, round down to 1000 shares.

Another helpful measure is to look at the ratio of the standard deviation to the average TR or TRD. KaseX stop's middle value or "risk ratio", uses the standard deviation associated with the first stop, here 1.2, to the average. TGT's value is 0.34. A comparison on the same day reveals most equities in the S&P 100 index have risk ratios right around 0.50, like Apple Inc. at 0.52, with some outliers above 0.70 such as Amazon.com. So TGT is especially smooth, meaning its slippage should be on the low/less risky side, and also means that its intraday chart should not be choppy. The 60-minute equivalent Kase Bar chart ***{KBAR<GO>}*** shows a clear decline, holding well below Kase StatWare's DevStop 3 from a 10-21 moving average short entry back on Jan. 10 to the time of this writing, Feb. 3. For more on KaseBars and Kase's studies, go to ***KBAR <GO>***, ***KASE<GO>*** or message Cynthia Kase.





(Cynthia A. Kase, CMT, MFTA is the president of Kase and Company, Inc.)

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STOCK WATCH

ANALYSIS BY TOM SCHNEIDER

Heikin-Ashi Analysis Indicates Intel Corp. Downtrend May Continue

THIS CHART IS AVAILABLE ON BLOOMBERG AT {G BBTA 505<GO>}.

Intel Corp. (INTC) gained more than 30 percent from its weekly low set on Nov. 23 until its recent decline. The Heiken-Ashi chart, along with RSI and MACD indicators, suggest the stock may continue the current downward trend.

After finding support and resistance levels at the 38 percent and 62 percent Fibonacci levels, the retracement of the two-year high in May of 2012, the stock consolidated around $25.50, the 76 percent Fibonacci level, before reversing to $24. The Heiken-Ashi chart, a variation of the traditional candlestick chart, uses a comparison of the current bar's open, high, low and close values with the previous bar's Heiken-Ashi high/low values to generate a smoothed candle chart with fewer whipsaws. Strong bullish trends are usually denoted with flat or shaven bottoms (open = low). This is the case for INTC at the end of last year. Heikin-Ashi candles that have tails (where the low is less than the open) indicate a weakening trend. The reverse to the bear side is shown with the latest shaven top candles (high = open), which indicates a strong downtrend.

Meanwhile, INTC's 13-week RSI just crossed below the 50 level, indicating a bearish trend. The MACD, while still above zero, shows signs of a bear trend as it crossed below its signal line.

If the current trend continues, look for $23.05 as a goal as the stock retreats to its 50 percent Fibonacci level. Once the downtrend has exhausted and reversed, the $25.60-$25.75 area may serve as a target as that was an area of consolidation from June-September of 2012, and in June 2013. That also happens to coincide with the minor 76 percent Fibonacci level.

(Tom Schneider is a technical analysis specialist at Bloomberg LP in New York. He can be contacted at TSchneider7@Bloomberg.net)

Bloomberg Charting and Technical Analysis Events

DATE	EVENT	FEATURING	LOCATION	CONTACT/REGISTRATION
Feb. 13, 12:30-5:00	Bloomberg EDGE: Charting and Technical Strategy	Join Bloomberg's data visualization and technical strategy group as they present and interpret a wide array of tools on the Bloomberg Professional Service.	Dallas, Texas	Please register on BU <GO> or email: cteventsna@bloomberg.net
Feb. 14, 12:30-5:00	Bloomberg EDGE: Charting and Technical Strategy	Join Bloomberg's data visualization and technical strategy group as they present and interpret a wide array of tools on the Bloomberg Professional Service.	Houston, Texas	Please register on BU <GO> or email: cteventsna@bloomberg.net

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TECHNICAL LEVELS

	Price Points				Technical Indicators							Fibonacci Ratios		
FX	Last Price	% Chg (5)	5d High	5d Low	50d SMA	200d SMA	50d vs 200d	ADX	2SD From 60Day Mean		RSI 9	1 Year	3 Year	5 Year
DXY	80.8330	-0.11	81.3880	80.7940	80.6028	81.4540	-1.0%	**Range**	81.3692	79.9301	49.21	32.8%	71.4%	51.7%
EUR	1.3632	0.09	1.3647	1.3508	1.3638	1.3359	2.1%	**Range**	1.3821	1.3394	52.47	77.2%	55.4%	45.4%
JPY	104.1000	0.23	104.8400	103.8600	103.3392	99.9598	3.4%	22.90	106.8633	98.3564	46.74	91.2%	98.0%	81.8%
AUD	0.8773	-0.56	0.8888	0.8757	0.9005	0.9333	-3.5%	**Trending**	0.9497	0.8649	35.78	0.9%	4.1%	63.8%
BRL	2.3762	-0.62	2.3822	2.3282	2.3422	2.2342	4.8%	**Range**	2.4208	2.2377	58.33	84.7%	92.1%	76.2%
Commodities														
CL1	96.83	2.82	96.90	93.43	95.54	98.96	-3.5%	24.32	100.15	90.95	63.51	42.1%	55.0%	80.5%
NG1	4.86	12.32	4.90	4.20	4.14	3.84	7.6%	**Trending**	Bearish	3.29	OB	97.6%	97.3%	46.1%
GC1	1248.50	0.86	1262.00	1230.80	1239.44	1323.59	-6.4%	**Range**	1328.12	1178.19	57.99	13.7%	9.5%	43.4%
SI1	20.02	-0.41	20.31	19.83	19.92	21.46	-7.2%	**Range**	22.05	18.49	51.67	13.0%	5.9%	25.6%
Yields														
GT2	0.3839	0.34	0.4000	0.3692	0.3426	0.3232	6.0%	**Trending**	0.4299	0.2417	51.30	56.2%	33.7%	14.0%
GT5	1.6539	0.84	1.7054	1.6139	1.5601	1.3504	15.5%	21.98	1.8342	1.2229	49.14	82.9%	62.1%	33.3%
GT10	2.8324	-0.32	2.8711	2.8157	2.8608	2.5541	12.0%	**Range**	3.0541	2.6071	40.85	84.8%	62.5%	44.7%
GT30	3.7402	-0.88	3.7867	3.7332	3.8530	3.6136	6.6%	22.84	3.9734	3.7081	31.15	79.9%	56.4%	48.6%
Indices														
INDU	16373.34	0.00	16520.60	16316.25	16144	15426	4.7%	22.40	16676.43	15436.93	49.20	92.3%	97.8%	88.5%
SPX	1844.86	0.33	1850.84	1832.38	1811	1699	6.6%	**Range**	1861.15	1744.63	58.25	98.4%	99.5%	87.2%
UKX	6806.50	-0.13	6867.42	6800.00	6666	6554	1.7%	22.76	6885.84	6470.98	61.61	91.9%	98.2%	90.6%
NKY	15695.89	-0.33	15958.58	15574.23	15486	14337	8.0%	**Range**	16538.65	14047.91	47.01	88.8%	95.6%	78.7%
IBOV	49099.68	-1.22	49868.22	48440.05	50979	51806	-1.6%	**Range**	54934.50	48122.05	40.91	29.0%	19.9%	43.0%

Updated 7:00 a.m. EST, Jan.23, 2014. Source: *Bloomberg LP*

The above table monitors major markets and contains conditions to alert you to look at your charts. The rules are as follows: Last price and %Chg (5) is green/red if positive/negative. 5dHigh/5dLow is green/red if the 5d high or 5d low occurred during the last 20 days. The 50d SMA and 200d SMA will be green/red if the 50d SMA is greater/less than the 200d SMA. The 50d vs 200d measures the percent distance of the 50d from the 200d and turns yellow if the percent is between -1% and 1%. ADX will read Trending if it's greater than 25 and Range if its less than 20. 2SD From 60 Day Mean will be red and read Bearish when price is greater than the +2SD and will be green and read Bullish when price is less than -2SD. RSI 9 will say OB/OS and turn yellow when RSI 9 is greater than 70 or less than 30. The Fibonacci section will highlight blue if the 1yr, 3yr or 5yr ratios are within +/-1% of 38.2%, 50%, 61.8% levels or between 0-1% of 99-100%.

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32) Offit Capital Advisors LLC | Long-Biased Equit... | 50 | 10/28/13 | 500 | 1 or more | Global, Nor... | 02/04/14
33) Crescendo Capital SA | Long/Short Equity | -- | 02/03/14 | 0 | 0 or more | Western Eu... | 02/03/14
34) Tulare County Employees' R... | Fund of Funds | 30 | 09/20/13 | -- | 5 or more | Global, Nor... | 02/03/14
35) Overseas Private Investme... | Buyout, Debt (Dis... | -- | 10/29/13 | 105 | 0 or more | Asia Pacific... | 02/02/14
36) Ewing Marion Kauffman Fou... | Debt, Equity, Opp... | 50 | 10/01/13 | 300 | 3 or more | Global | 01/31/14
37) Harvest Funds Management... | Activist, Asset-Ba... | 100 | 01/30/14 | 0 | 0 or more | Global | 01/30/14
38) Holding Capital Group Inc | Long/Short Equity | 2 | 10/11/13 | 50 | 3 or more | Global, Nor... | 01/29/14
39) Meritage Capital LLC | Long/Short Equity | 3 | 10/25/13 | 100 | 3 or more | Western Eu... | 01/29/14
40) Lotus Peak Capital Pte Ltd | Equity Market-Neu... | 15 | 01/28/14 | 0 | 0 or more | Asia Pacific... | 01/28/14
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GLOBAL TREND LINES

- The S&P 500 and FTSE-100 are clinging to critical long-term support; the Nikkei has broken down.
- The U.S. dollar may be nearing a breakout while the Japanese yen is nearing important long-term support.

– Kevin Depew kdepew2@bloomberg.net